

Employer UPDATE

A PUBLICATION OF THE ARIZONA STATE RETIREMENT SYSTEM

May 2003

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Helpful Web Sites

Arizona State Retirement System

www.asrs.state.az.us

Arizona Legislature

www.azleg.state.az.us

Social Security Online

www.ssa.gov

Internal Revenue Service

www.irs.gov

State of Arizona

www.az.gov

Medicare

www.Medicare.gov

SIGNIFICANT INCREASE IN CONTRIBUTION RATES

New contribution rates to the Arizona State Retirement System are scheduled to take effect July 1, 2003. This will be the first increase in the contribution rate for employees and employers in 10 years.

Three factors have contributed to the rate increase: an increase in benefits put in place by the state Legislature, negative investment returns from a down market the past several years, and past contribution rates set below the actual costs of operating the ASRS and its programs, which were put in place when the system was in an overfunded position.

As mandated by the Arizona Constitution, contribution rates are actuarially determined in order to provide for the promised benefits of current and future retirees. The rate is approved by the ASRS Board and will take effect July 1. However, there has been some discussion at the state Legislature related to phasing in the increase over a couple of years. Part of that discussion will need to address the Constitutionality of such a phase-in option.

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ASRS Excess Benefits Plan

The ASRS has completed notification to all employers who have retired employees eligible to participate in the ASRS Excess Benefits Plan. An "excess benefit" is the difference between the full amount of a retiree's pension provided by state law and the maximum benefit allowed under limitations imposed by the IRC Section 415. The ASRS created this plan in order to pay the retiree the full amount of pension benefit they have earned.

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Contribution Rates, Continued from the Cover

The new pension rate for fiscal year 2003-04 as set by the actuary and accepted by the ASRS Board is 5.2 percent for both employers and employees. The long-term disability rate will also increase, slightly, from 0.49 percent to 0.50 percent, for each the employer and employee. It should be noted that this increase is not a one-time event.

Future contribution rates will be set by the same process and will take into account earnings, demographics and legislative changes to determine the appropriate rate.

	<u>Current Rate</u>			<u>FY 2003-04</u>		
	<u>Pension</u>	<u>LTD</u>	<u>Total</u>	<u>Pension</u>	<u>LTD</u>	<u>Total</u>
Employer	2.00%	0.49%	2.49%	5.20%	0.50%	5.70%
Employee	2.00%	0.49%	2.49%	5.20%	0.50%	5.70%
Total	4.00%	0.98%	4.98%	10.40%	1.0%	11.40%

The ASRS has received inquiries from employers asking if the employer can pick up the additional rate increase for their employees. Because the ASRS is a matching contribution retirement fund, **employers cannot pick up part of the employee contributions**. Each group – employers and employees – must contribute equally to the plan, as outlined in Arizona Revised Statutes 38-736 and 38-737. This, however, would not prevent the employer from covering the increased costs to employees by providing a direct salary increase to employees.

ASRS Excess Benefit Plans, Continued from the Cover

A retiree eligible for an excess benefit distribution receives two checks from the ASRS – a pension check for their standard benefit and a second check with the excess benefit amount. The assets of the pension fund are held in a trust and due to that and the fact that the excess benefit amount has different withholding and reporting requirements, the ASRS cannot disburse the excess benefit check directly to the retiree. The last known employer of the retiree receives the excess benefit amount and that employer must process the money through their payroll with the appropriate withholdings and then send the check to the retiree.

The excess benefit checks are paid once a month, but the dates may vary depending on the employer's payroll system. IRC Section 415 is a complex issue and we plan to address it at our annual Employer Conference this summer. The payment of an excess benefit is a unique situation and this article is meant as an overview only. If you would like additional information on this topic, see A.R.S. §38-774.

If you have a retiree that qualifies for an excess benefit, the employer and retiree will be notified by the Arizona State Retirement System. If you are an employer currently involved with paying an excess benefit to a retired employee and you have questions, please contact Employer Relations at the numbers listed below.

Contact us

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Employer UPDATE

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“Leased Employees and Third Party Contractors”

Recently, several third-party contractors have contacted the ASRS regarding their role with ASRS employers in the hiring of employees. The term “Leased Employee” is sometimes used.

“Leased employee” is a term used by the ASRS for a person hired through a private company. A leased employee is similar to a temporary employee hired through a temporary agency. Under IRS regulations, a public retirement system cannot allow private companies to participate in the system. Therefore, a leased or temporary employee hired through a private company is not eligible to participate in the ASRS.

Another issue that has arisen in the last few months is third-party contractors contacting ASRS requesting information that should be provided by the employer. The ASRS and the member employer entered into a retirement agreement. This agreement is between the employer and the ASRS, not the contractor. The ASRS will address any issues with the employer, not the third-party contractor. The ASRS will, however, be happy to provide information to or answer questions that the contractor may have.

LEGISLATIVE UPDATES

To learn the latest developments on legislation that affects the State Retirement System, look for our Weekly Legislative Report. It can be found online at www.asrs.state.az.us

Or, if you’d like to be placed on our email list, call the Communications Office at 602-240-2016 in metro Phoenix, 520-239-3100 extension 2016 in metro Tucson and 1-800-621-3778 extension 2016 outside metro Phoenix and Tucson.

ASRS Board Receives 3 New Members; Selects Chairman & Vice Chairman

The Arizona Senate confirmed the appointment of three new members to the Arizona State Retirement System Board on Wednesday, April 16. The new members began their official duties at the April 18 Board meeting.

The three new members appointed by Gov. Janet Napolitano are Keith Meredith of Tucson; Lawrence Trachtenberg of Scottsdale, and Steven Zeman of Phoenix. They replace outgoing members Bonnie Gonzalez, Alan Maguire and Ray Rottas.

Also, Board Member Karl Polen Jr., of Phoenix has been selected chairman of the ASRS Board, and Norman Miller of Phoenix is the new vice chairman.

The Arizona State Retirement System Board consists of a nine-member panel appointed by the Governor. Its duties are to oversee the administration of the Retirement System, which includes more than 373,000 members from state, county and local governments, school districts, colleges and universities, and other political subdivisions in Arizona. The System manages a pension fund of approximately \$17 billion.

Dr. Meredith is retired from the University of Arizona, where he served on the staff for Educational ~~Psychology~~ He holds a Doctorate degree in Educational Psychology from the U of A and a Master of Science and Bachelor of Science degree in Music Education from Kansas State University.

Mr. Trachtenberg currently serves as Executive Vice President, Chief Financial Officer and General Counsel for Mobile Mini Inc. He holds a Law degree from Harvard Law School, and a Bachelor of Arts degree from Queens College, City University New York.

Mr. Zeman currently serves as an auditor with the Arizona Department of Transportation. He is a Certified Internal Auditor and holds a Bachelor of Science degree from the University of California - Los Angeles.

WWW.ASRS.STATE.AZ.US

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is published periodically for employers of the Arizona State Retirement System by the External Affairs Division. Comments and questions may be directed to the Editor, or call (602) 240-2022 in metro Phoenix, (520) 239-3100 ext. 2022 in metro Tucson or toll-free outside metro Phoenix and Tucson at 1 (800) 621-3778. ext. 2022.